

BEFORE THE
POSTAL RATE COMMISSION
WASHINGTON, D.C. 20268-0001

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POSTAL RATE COMMISSION
OFFICE OF THE SECRETARY

Complaint on Sunday
and Holiday Collections

Docket No. C2001-1

ANSWER OF THE UNITED STATES POSTAL SERVICE AND
MOTION TO DISMISS
(November 27, 2000)

Introduction and Background

On October 27, 2000, the Postal Rate Commission received a complaint filed by Douglas F. Carlson. By letter dated October 30, 2000, the Office of the Secretary, Postal Rate Commission, designated the docket number above and advised the General Counsel, United States Postal Service, of the Complaint's filing under title 39, United States Code § 3662.

The Complaint identifies three areas of alleged service deficiency -- Sunday collections (paragraphs 9-12), holiday collections (paragraphs 13-21), and Christmas Eve and New Year's Eve collections (paragraphs 22-34). With regard to each of these three areas, two types of deficiencies are alleged -- that service does not conform with the Postal Operations Manual (paragraphs 12, 21, and 33), and that the current service level reflects a nationwide change in service that was implemented without solicitation from the Commission of an advisory opinion pursuant to 39 U.S.C. § 3661 (paragraphs 11, 20, and 34).

A brief summary of relevant facts, while not strictly called for as part of an

Answer, nonetheless facilitates understanding of this Complaint, particularly its bifurcated nature. While superficially there are three types of collection service identified -- Sunday, holiday, and Christmas and New Year's Eves -- in reality, the complaint can be split into two substantially unrelated sets of allegations. The first involves a discrete and easily-identifiable historical determination by the Postal Service to eliminate Sunday collections and outgoing mail processing. As shown by Exhibit 1 attached to the complaint, the determination regarding Sunday service was quite explicitly announced in late January of 1988 and implemented almost immediately. Importantly, the context of that determination was a response to a Congressional mandate, as part of a comprehensive government-wide budget balancing exercise, to reduce postal operating costs by a set amount. After evaluating the available alternatives, the Postal Service chose to meet that legislative directive, in part, by eliminating Sunday collections and outgoing mail processing. After all these years, that action is one of those about which Mr. Carlson now complains.

The second set of allegations -- regarding holiday service in general, and service on the days preceding two specific holidays -- is quite distinct. Instead of, as above, identifying a very tangible and concrete announcement of something that at least may appear to have some of the hallmarks of a nationwide service change, Mr. Carlson here claims to discern a pattern of holiday service reductions over time, as exemplified at specific different locations. In Mr. Carlson's mind, the cumulative effect of what he has more recently observed regarding holiday collections apparently rises to what he regards as a nationwide change in service in the same sense as the 1988 elimination of Sunday collections is alleged to have done. As a consequence, he has chosen to

attempt to initiate this proceeding with respect to that set of issues as well.

As discussed in more detail below, it is the view of the Postal Service that both sets of allegations -- those relating back to 1988, and those relating to more recent time periods -- are equally incapable of sustaining a legitimate complaint proceeding, albeit for different reasons. Before explaining those views and presenting its motion to dismiss the complaint in its entirety, however, the Postal Service provides the following Answer to the specific allegations of the complaint.

ANSWER

The Complaint consists of 38 numbered paragraphs, accompanied by four exhibits. Pursuant to Rule 84 of the Rules of Practice and Procedure of the Postal Rate Commission (title 39, Code of Federal Regulations §3001.84), the Postal Service answers each paragraph of the Complaint as follows:

Paragraph 1

This paragraph simply identifies the complainant by name; the Postal Service considers this sentence procedural and not requiring a response.

Paragraph 2

This paragraph quotes a section of the Postal Reorganization Act, to which no answer is required.

Paragraph 3

This paragraph quotes a section of the Postal Reorganization Act, to which no answer is required.

Paragraph 4

This paragraph quotes a section of the Postal Reorganization Act, to which no

answer is required.

Paragraph 5

This paragraph quotes from the preface page of the Postal Operations Manual, to which no answer is required, although the Postal Service admits that the POM has been quoted correctly.

Paragraph 6

This paragraph quotes a section of the Postal Reorganization Act, to which no answer is required.

Paragraph 7

This paragraph paraphrases a section of the Postal Reorganization Act, to which no answer is required.

Paragraph 8

This paragraph paraphrases a section of the Postal Reorganization Act, to which no answer is required.

Paragraph 9

This paragraph paraphrases a section of the Postal Operations Manual, to which no answer is required. To the extent that an answer is deemed to be required, the paragraph is denied, as the POM sections cited speak of the need to "connect with dispatches of value to meet established standards," and the established standards (as described in response to Paragraph 10, below) no longer generate dispatches of value on Sunday.

Paragraph 10

As indicated in Exhibit 1 attached to the complaint, the Postal Service admits

that a Memorandum from the Deputy Postmaster General was issued to the Regional Postmasters General on January 22, 1988, with the intent of establishing a uniform policy, to be effective on February 14, 1988, to eliminate Sunday collections and outgoing mail processing.

Paragraph 11

The Postal Service admits that the actions taken in 1988, as described above in response to paragraph 10, were initiated without solicitation of an advisory opinion from the Commission. The Postal Service denies, however, any suggestion that solicitation of an advisory opinion from the Commission was required, particularly under the circumstances surrounding those actions.

Paragraph 12

The Postal Service admits that the 1988 policy change eliminating Sunday collections has not been incorporated into the POM. Actions to amend the POM to bring it into technical conformance with actual policy and service levels which have been in effect since that time are currently underway. The Postal Service denies that the POM "prescribes" any outgoing First-Class Mail service.

Paragraph 13

This paragraph paraphrases and describes indicated sections of the Postal Operations Manual, to which no answer is required. To the extent that an answer is deemed to be required, the Postal Service denies the first sentence, as the paraphrase omits reference to those portions of POM sections 322.233 and 322.343 which indicate the purpose of those sections is "to ensure that the mail [collected] will connect with dispatches of value to meet established standards." To the extent that an answer is

deemed to be required, the Postal Service admits that, within section 125 of the POM, entitled "Lobby Management," section 125.22 lists postal holidays, and Exhibit 125.22 is entitled "Holiday Service Levels."

Paragraph 14

Because this paragraph contains an allegation regarding the course of action taken by many hundreds of processing and distribution centers over an undefined time period (apparently all time periods "prior to 1988," but with no defined start date) that ended well over ten years ago, the Postal Service lacks sufficient information to formulate a detailed response to this allegation, and it is accordingly denied. As a practical matter, however, the Postal Service admits that in the 1970s and early 1980s, the Postal Service's processing and distribution facilities, in general, probably tended to do more processing of outgoing mail on holidays than they currently tend to do, for the reasons explained below in response to paragraph 15.

Paragraph 15

While denying that outgoing holiday mail processing has been "phased out" over any particular time period, the Postal Service admits that, from time to time, efforts have been undertaken at various levels to better match reasonable service expectations with increasingly scarce resources, and the result has been more facilities in which outgoing mail processing now tends not to be conducted on the six holidays identified in this paragraph. Furthermore, the Postal Service admits that outgoing mail processing on Christmas Day and New Year's Day is now rare.

Paragraph 16

The Postal Service denies that all P&DC's in Florida did not process outgoing mail on Memorial Day in 1999, but admits that most of them did not.

Paragraph 17

The Postal Service admits that outgoing mail processing occurred at the Oakland P&DC on Memorial Day 1999, and did not occur at that facility on Memorial Day 2000, or on Labor Day 1999 or 2000. As explained in response to Paragraph 15, the Postal Service denies that outgoing holiday mail processing has been "phased out" over any particular time period.

Paragraph 18

The Postal Service admits that collection and outgoing mail processing tend not to be conducted on widely observed holidays. As a result, if the holiday falls on a Monday, customers have access to outgoing mail service in the sense that they can still deposit their mail in collection boxes, but two consecutive days may pass in which that mail tends not to be collected or processed. When a widely observed holiday falls on Monday, however, operational experience confirms what common sense would suggest: people's attention on such three-day holiday weekends tends to be focused towards observation of the holiday, travel, leisure, and recreational activities, and away from activities with a propensity to generate outgoing mail.

Paragraph 19

This paragraph alleges details regarding the Kalispell Montana Post Office. Based on the information in the correspondence attached as Exhibit 2 to the complaint (and assuming its authenticity), it appears that outgoing mail was in fact processed

(e.g., canceled, sorted) in Kalispell on Columbus Day in 1999, but was not dispatched for transportation until the following day. Accordingly, the first sentence is denied.

Paragraph 20

The Postal Service admits that it has not requested a section 3661 advisory opinion from the Commission with regard to holiday mail service. In all other respects, this paragraph is denied.

Paragraph 21

This paragraph is denied. The Postal Service denies that the POM "prescribes" any outgoing First-Class Mail service. Even with respect to collections, the POM allows for exceptions.

Paragraph 22

The Postal Service denies this paragraph, as POM Exhibit 125.22 allows for the possibility of exceptions, and also does not require normal collection service on the day prior to a Monday holiday.

Paragraph 23

The Postal Service denies this paragraph, as POM Exhibit 125.22 allows for the possibility of exceptions.

Paragraph 24

The Postal Service admits that post offices in some areas conducted final collections on Christmas Eve 1999 prior to the final weekday collection time posted on collection boxes.

Paragraph 25

With respect to the first sentence, the Postal Service admits that to whatever

extent post offices conducted early collections on Christmas Eve in 1999, they in most instances would not have posted notices on each individual collection box alerting mailers of the intent to depart from the normal collection schedule, as potential mailers were intended to be alerted by other means. With respect to the second sentence, the Postal Service admits that mail deposited after the posted collection time on Friday, Christmas Eve 1999, would in most instances not have been scheduled for collection until the following Monday, unless the box was in a location likely to overflow and thereby pose security or other operational concerns. The third sentence is denied. The fourth sentence is denied, as POM Exhibit 125.22 allows for the possibility of exceptions, and because the POM is not intended to serve as a source to the general public of information regarding holiday service levels.

Paragraph 26

With respect to the first sentence, the Postal Service admits that it appears to quote Exhibit 3 accurately, assuming that exhibit is authentic. With respect to the second and third sentences, the Postal Service admits that the wording of the notice reproduced as part of Exhibit 3 was ambiguous, and that mailers could have been confused as to whether their mail would be collected on Christmas Eve if deposited by 12 noon, or whether they had to deposit it in advance of 12 noon in order to expect collection on that day. The Postal Service denies that any reasonable mailer would have been led to believe from this notice that mail deposited after midnight but before normal daytime carrier street activity (e.g., 9 am) would have been unlikely to be collected on that Friday.

Paragraph 27

The Postal Service admits that this paragraph appears to paraphrase Exhibit 3 accurately.

Paragraph 28

The Postal Service denies this paragraph, as POM Exhibit 125.22 does not provide for normal collection service on the day prior to a Monday holiday.

Paragraph 29

The Postal Service denies that responsible Headquarters officials in 1999 did not authorize memoranda to the field on operations for specific holidays which, whether or not explicitly stated in terms of "exceptions" to the service level information included in POM Exhibit 125.22, provided guidance that had the potential effect of superceding the POM in any instances in which those memoranda might have conflicted with it. See Attachment B to this pleading.

Paragraph 30

The Postal Service admits that it has been unable to locate any response to the correspondence from Mr. Carlson attached as Exhibit 4 except as indicated in that exhibit. In all other respects, the Postal Service lacks sufficient information to confirm or deny the success of Mr. Carlson's attempts to obtain information concerning approved exceptions or to "resolve this problem for future years."

Paragraph 31

The Postal Service admits that Exhibit 1.5 of DMM section G011.1.5 indicates that exceptions to the listed holiday service levels are permitted if approved by a district manager. The Postal Service denies that the POM necessarily provides the controlling

policies, regulations, and procedures governing collections in situations such as this in which it conflicts with the DMM.

Paragraph 32

While the breadth of this allegation is so broad as to make it very unlikely that the circumstances described have never occurred, because it is an allegation regarding the course of action taken by many thousands of post offices over an undefined time period (apparently all time periods "prior to 1999," but with no defined start date), the Postal Service lacks sufficient information to formulate a detailed response to this allegation.

Paragraph 33

The Postal Service denies this paragraph, as POM Exhibit 125.22 allows for the possibility of exceptions, and also does not provide for normal collection service on the day prior to a Monday holiday.

Paragraph 34

The Postal Service admits that it has not requested a section 3661 advisory opinion from the Commission with regard to mail service on Christmas Eve or New Year's Eve. In all other respects, this paragraph is denied.

Paragraph 35

This paragraph is denied.

Paragraph 36

This paragraph is denied.

Paragraph 37

This paragraph consists of a request for relief, to which no answer is required. To the extent that an answer is deemed to be required, the Postal Service denies that

the requested relief is either warranted or appropriate.

Paragraph 38

This paragraph consists of a request for relief, to which no answer is required. To the extent that an answer is deemed to be required, the Postal Service denies that the requested relief is either warranted or appropriate.

The Postal Service denies all other allegations of material fact which have not been answered specifically herein.

In accordance with Rule 84(b) and (c) of the Rules of Practice and Procedure of the Postal Rate Commission, the Postal Service further states as follows:

Consistency with the POM

1. The Complaint in this proceeding alleges (paragraphs 12, 21, 33, and 37) that the Postal Service is failing to provide service that conforms to the Postal Operations Manual (POM). The provisions of the POM, however, are not necessarily commensurate with the policies of the Act. The Complaint fails to allege that the complainant is not receiving postal services in accordance with the policies of title 39. Therefore, the allegations regarding the POM (paragraphs 12, 21, 33, and 37) are outside the scope of 39 U.S.C. § 3662 ("Interested parties ... who believe that they are not receiving postal service in accordance with the policies of this title may lodge a complaint ..."), and Commission Rule 82 ("The Commission shall entertain only those complaints which clearly raise an issue concerning whether or not rates or services contravene the policies of the Act[.]") Those portions of the complaint should be dismissed on that basis. The Commission lacks jurisdiction to entertain complaints

which fail to allege that the service provided is not in accordance with the policies of title 39, and it has correctly recognized this constraint in a related context. See Commission Order No. 1088 at 4 (dismissing complaint in Docket No. C95-1 on grounds that section 3662 complaints are limited to those alleging violations of title 39).

2. Moreover, even prior to receipt of the Complaint, the Postal Service had already initiated internally the process by which the POM is amended in order to eliminate the technical discrepancies of which Mr. Carlson complains, and that process continues. Discrepancies between the provisions of the POM cited in the complaint and the actual operational practices provided in accordance with the 1988 memorandum from Deputy Postmaster General Coughlin, as well as between the POM and DMM (paragraph 31 of the Complaint), were the subject of contention in previous omnibus rate proceedings. Even though the POM is primarily an internal document and, unlike the DMM, is not intended to serve as a vehicle by which service information is conveyed to the mailing public, to avoid similar contention in the future, the Postal Service has already begun the process of amending the POM. When that process is completed, the technical inconsistencies cited by the Complaint will be eliminated. Even if the Commission had jurisdiction in section 3662 complaints to consider service that is merely not in accordance with the POM, which it does not have, there would be no practical point in pursuing analysis of a situation which will soon cease to exist. The allegations regarding the POM (paragraphs 12, 21, 33, and 37) should be dismissed on that basis.

3. Even in the context of the POM as it exists today, the Complaint grossly overstates the significance of the POM provisions cited by misleadingly blurring the

distinction between collection and mail processing. For example, paragraphs 12 and 21 both contain allegations that the Postal Service is failing to provide "outgoing First-Class Mail service that the POM prescribes," yet the Complaint cites no provision of the POM that even purports to "prescribe" outgoing First-Class Mail service, in the sense of what would happen to mail after it is collected. Similarly, paragraph 37 refers to the "POM-mandated level of ... outgoing mail processing on Sundays, holidays, Christmas Eve, and New Year's Eve," but the Complaint cites no provision of the POM that even purports to mandate a level of "outgoing mail processing on Sundays, holidays, Christmas Eve, and New Year's Eve." The Complaint places great reliance on POM Exhibit 125.22, but fails to acknowledge that this exhibit only appears in a section of the POM entitled "Lobby Management." The Complaint attempts to bootstrap claims regarding POM provisions relating to collection as if those provisions related to mail processing, and the Commission, even if it had the jurisdiction which it lacks under section 3662 as explained above, should decline to entertain paragraphs 12, 21, 33, and 37 of the Complaint on that basis.

Sunday Collections

4. *The portions of the Complaint regarding the elimination in 1988 of Sunday collections and outgoing mail processing without initiation of a section 3661 service change proceeding (paragraphs 10 and 11) should be summarily dismissed. First, common sense principles of equity and laches suggest that the appropriate time to challenge that action has long since come and gone. Not only has the train left the station, but the tracks have been pulled up, and the station has been torn down and paved over. Mr. Carlson alleges no circumstances that would justify a delay of nearly*

13 years in presenting this matter to the Commission.

5. Second, even had this challenge been pursued in a timely manner, the Postal Service's actions (and omissions) in 1988 were entirely reasonable under the circumstances. The portions of the 1988 Annual Report of the Postmaster General, and the 1988 and 1989 Comprehensive Statements on Postal Operations, appended as Attachment A, amply present the context in which those events occurred. They show that:

- The cuts were made when the Omnibus Budget Reconciliation Act of 1987, enacted over the objections of the Postal Service, mandated (among other things) a reduction in postal operating expenses of \$160 million in FY 1988, as part of a broader effort to capture postal revenues in pursuit of federal budget deficit reduction.
- The service cuts (which included several actions beyond the elimination of Sunday collections and processing) were made with great reluctance, after full examination of the available alternatives, and with the explicit recognition that the mailing public would experience disruption relative to its existing mailing practices.
- The timing of the OBRA legislation created major difficulties, as a substantial portion of the fiscal year had already passed. Imposition of an additional 90-day delay in implementation (pursuant to Commission Rule 72 regarding section 3661 service change cases) would have resulted in a situation in which over half of the fiscal year would have already expired before the mandated savings could begin to be captured. This would have severely cut into the actual savings realized from the planned service adjustments, and would have precipitated the need for yet more service reductions to meet the gap between the fixed amount of savings required for the year, and the savings yielded from the cuts under consideration if their implementation were delayed. The only way to minimize the service impact was to move as expeditiously as possible.

These factors demonstrate that attempting to seek a section 3661 advisory opinion under the circumstances that existed in 1988 would have been an essentially meaningless gesture, and would have frustrated the Postal Service's ability to comply

with the OBRA directives with the least possible harm to the mailing public.

6. The status quo as it exists today is that the policy of routine Sunday collections and outgoing mail processing was eliminated in 1988 and is virtually ancient history. There would be no practical utility to allowing Mr. Carlson to attempt to dredge up that ancient history, and all portions of the complaint relating to Sunday collection and processing should be summarily dismissed.

Holiday and Holiday Eve Collections

7. In stark contrast with what appears to have borne at least some of the hallmarks of a substantial change in Sunday service policy in 1988, there has been no specific change in holiday service policy that would even arguably have created the occasion for a request for an advisory opinion on a nationwide change in service under section 3661. Although *collection service* on holidays has generally been guided by the service level information provided in the POM and DMM, both of those documents explicitly allow for exceptions. By their nature, those exceptions are temporary (i.e., specific to a given holiday on a given year), and are to some extent localized as well (circumstances in particular areas will be taken into account in determining the appropriate collection service for that area). While the extent of *mail processing* on holidays is not guided by the collection service level information provided in the POM and the DMM, there is a practical relationship between the two operations. Except to avoid situations in which collection boxes are overflowing (creating, for example, mail security issues), there is generally not much point in collecting mail on days in which mail processing operations are not underway. Decisions about holiday mail processing, however, tend to be made on the basis of the same information reflected in the holiday

collection exceptions discussed earlier. In other words, operations may be adjusted on a temporary, localized basis to meet the reasonable needs of customers in that area. As a practical matter, however, these types of temporary and localized operational adjustments cannot and do not rise to the level of a nationwide change in service, as contemplated by section 3661. Those portions of the complaint (paragraphs 20 and 24) attempting to relate such service adjustments to section 3661 of the Act should, accordingly, be dismissed.

8. If there has been any trend in recent years regarding holiday mail service practice, it would be in the direction of allowing more pragmatic decisions with respect to particular holidays, and with respect to local conditions. Rather than relying exclusively on the type of guidance reflected in POM Exhibit 125.22, more attention has been focused on developing specific guidance each year for specific holidays. In addition to receiving such guidance, however, offices are also instructed to carefully evaluate the service needs of their communities, and to determine what level of service is warranted in light of those needs. Local officials may be aware of special events or activities that could affect mailing levels in their area, and they will be aware of mailing levels on similar holidays under similar circumstances earlier in the same year, as well as in previous years. Such volume information is critical to the evaluation of whether sufficient mail will likely be available to meet minimum volume levels required to start up and run efficiently the chain of operations needed to handle outgoing collection mail. Thus, local officials may be in the best position to evaluate the cost consequences (as well as the additional factor of potential consequences on employee morale) of scheduling various operations in their delivery units and processing facilities during any

given holiday period. Local officials have information on details such as the availability of transportation for dispatch, and (given the ongoing level of operational activity other than that related to handling collection mail) the magnitude of the additional staffing that might be required to get mail from collection to sortation to dispatch. Those officials, in other words, are well-situated to make an operational assessment of appropriately meeting the holiday needs of customers without unnecessarily expending resources that are unlikely to be justified, and, subject to the necessary approval, they are able to do so. It is by following such a pragmatic approach that the Postal Service is *best* able to provide holiday mail service that is in accord with all of the policies of the Act (e.g., "adequate and efficient postal services").

9. The Complaint makes it clear that Mr. Carlson wants no part of a pragmatic approach to holiday service schedules. For example, paragraphs 25 and 36 indicate that whether or not customers are aware of holiday service adjustments (e.g., "regardless of the level of publicity") is not the issue in his mind. Rather, his apparent view (paragraph 38.c) is that any failure to provide complete outgoing mail service on "Sundays or holidays or any two consecutive days" is unsatisfactory to him. He is entitled to his opinions. The Commission, however, is not obligated to share those opinions, or impose the burden on itself and the Postal Service of conducting hearings to explore Mr. Carlson's views. With respect to holiday (and holiday eve) service in particular, the gravamen of the Complaint is "an individual, localized, or temporary service issue not on a substantially nationwide basis" (39 C.F.R. §3001.82) that fails to raise a matter of policy to be considered by the Commission.

10. Paragraphs 24-26 of the Complaint amply demonstrate the inappropriate

nature of these matters for further proceedings before the Commission. Those paragraphs address the circumstances of Christmas Eve, 1999 (which happened to fall on a Friday), and allege that in certain areas collection schedules were adjusted. According to paragraph 26, for example, collections were moved up to 12 noon in certain offices in the Southeast New England District. Apparently, in Mr. Carlson's view, the Postal Service should not have the ability to make such adjustments, regardless of the circumstances. Yet granting the Postal Service the latitude to continue to resolve these everyday operational matters is precisely the rationale behind the policy against entertaining complaints regarding "an individual, localized, or temporary service issue not on a substantially nationwide basis." Mr. Carlson's preferred approach would necessarily involve the Commission in unreasonable (and, in all probability, ultimately fruitless) efforts to micromanage postal operations. If 12 noon is inadequate in Providence, what about 4 p.m.? Should holiday operations be identical in Oakland, in Kalispell, in Providence, and in New York City, and the thousands of other cities and towns around the country? These types of issues, however, are not well-suited for rigid, theoretical resolution, and plainly constitute exactly the types of non-policy nuts-and-bolts operational matters that Rule 82 is intended to place outside the scope of service complaint proceedings.

11. Because the Complaint fails to raise a matter of policy to be considered by the Commission within the meaning of 39 U.S.C. § 3662, as implemented by 39 C.F.R. § 3001.82, the Complaint could be dismissed.

12. The Postal Service considers that a hearing on this Complaint is not necessary.

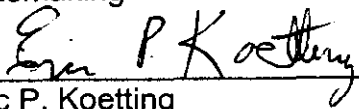
WHEREFORE, the United States Postal Service respectfully requests that this proceeding be dismissed.

Respectfully submitted,

UNITED STATES POSTAL SERVICE

By its attorneys:

Daniel J. Foucheaux
Chief Counsel
Ratemaking



Eric P. Koetting
Attorney

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992/ FAX: -5402
November 27, 2000

ATTACHMENT A

Annual Report of the United States Postal Service, Fiscal Year 1988
Cover, pages 2-3, and 22.

Comprehensive Statement on Postal Operations, 1988
Cover, pages 1-2, and 51-52.

Comprehensive Statement on Postal Operations, 1989
Cover, pages 1-3, and 45-47.

Annual Report of the
United States
Postal Service
Fiscal Year 1988

OFFICE OF THE
POSTMASTER GENERAL

Our Agenda

- I. Expand interval between
rate adjustments
- II. Provide best possible
service to the American
people
- III. Establish better
relationship between
labor and management

- A.M.F.

January 1980

To the Board of Governors:

During Fiscal Year 1988, the Postal Service processed and delivered 160 billion pieces of mail, surpassing the previous year's volume of 154 billion pieces and establishing a record volume for the 12th consecutive year. Total revenue for the year nearly reached \$36 billion, an 11 percent increase over the previous year. Despite this increase in revenue, we ended the year with a net loss of about \$597 million.

This does not, however, fully tell the story of Fiscal Year 1988, my first as Postmaster General of the United States. Last year was

one of uncommon challenge, uncommon opportunity and uncommon response by the men and women of the United States Postal Service.

As I assumed office in March, succeeding Preston R. Tisch, much already had happened to distinguish this as an unusual year. The Postal Service was developing plans to meet the unexpected mandates of the Omnibus Budget Reconciliation Act of 1987, which required that we make payments totaling \$510 million to the U.S. Treasury as a contribution toward the national effort to reduce the federal deficit.

The effects of the Act were immediate and will be long-lasting.

The Postal Service was forced to cancel or postpone 75 percent of the urgently needed capital investment commitments we had planned for Fiscal Year 1988 and to reduce operating expense by \$160 million.

These unexpected provisions of the Act were imposed on the Postal Service well after the year had begun and our operating budgets had already been carefully pared. To meet the mandated reductions, we were required to make additional adjustments, among them an average nine percent reduction in the hours our retail facilities were open to the public. This all happened just as the Postal Service was preparing

to raise rates for the first time in more than three years.

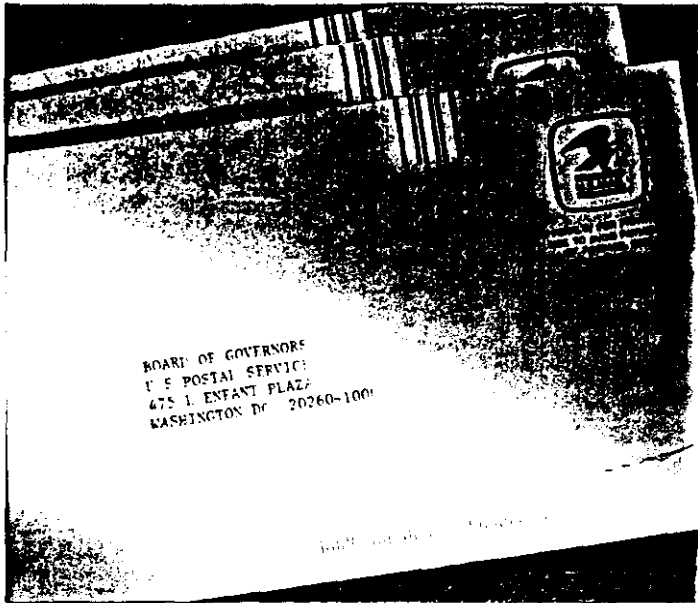
That was not a welcome scenario, and, unfortunately, it came at a time that a host of organizations and adversaries were stepping up their efforts to privatize the U.S. Postal Service.

The potential clearly existed for a wave of public indignation that could have undone years of steady progress toward improving the quality of services we provide to our customers who depend on this great public enterprise for consistent, reliable, affordable and universal mail services to meet a range of communication and distribution needs.

As the words and images of this annual report demonstrate, the Postal Service not only kept faith with our customers, but also established a clear agenda for continuing the historic partnership we have long held with the American people. The agenda is to:

- Expand the interval between rate adjustments.
- Provide the best possible service to the American people.
- Improve management's working relationship with our employees.

This agenda is essential, realistic and workable. It will require changing some deeply held attitudes within the Postal Service, and it will not be achieved overnight. It focuses on the inescapable



Forty-four percent of all letter mail was handled via automated equipment in Fiscal Year 1988, up over 10 percent from the previous year.

benefits of modern technology and the energies of dedicated and motivated people on meeting the needs of our customers:

Progress toward this agenda has already begun. Throughout the year we worked closely with our customers, employees and labor and management organizations to increase cooperation and to expand the convenience of our products and services. Among our major accomplishments in these areas were the development of an integrated plan for automation, the commitment to a goal of bar-coding virtually all mail by 1995, the establishment of a joint industry-postal task force which generated recommendations for expanded worksharing opportunities and the signing of an agreement with the National Association of Letter Carriers to reduce grievances by half. These efforts are highlighted throughout this report.

As we now move forward to broaden our customers' understanding of our agenda and to make ours a better "businesslike public service," we should benefit in Fiscal Year 1989 from greater stability. We have labor contracts and stable postage rates in place. In May, we completed the fine tuning of our structure with the

appointment of two Associate Postmasters General, the creation of the Special Projects Department to focus on short-term business opportunities, the creation of the Consumer Affairs Department to recognize the importance of the general public to our national franchise, and by realigning the reporting relationship of the Planning Department to meet the need for continuity in long-range planning. The appointment of a Senior Assistant Postmaster General for Marketing and Communications at year's end completed our search for an executive team that is highly qualified and brings to the Postal Service a blend of private and public sector experience.

To close with some personal reflections, I wish to express my sincere appreciation for the efforts that numerous individuals made to my postal education. The support of Deputy Postmaster General Michael S. Coughlin, other senior management of the Postal Service, Board Chairman John N. Griesemer and the Governors helped broaden my understanding of the complexities of managing this significant business of the American people. I learned much about the interdependency of the

Postal Service and the mailing industry from the hundreds of mailers and thousands of employees that I met as I traveled throughout the country. And from the members of Congress and their staffs and the customers who receive the mail, I received a deeper appreciation for the Postal Service's importance to the economic and social health of our nation.

I believe that 1989 will provide many significant opportunities to advance our agenda and point us toward the future as a more secure, effective and customer-oriented Postal Service. That is as it should be. Whether we call ourselves managers, clerks, carriers or customers, we are all people working together in a common cause to preserve, protect and strengthen an uncommon public enterprise.

Anthony M. Frank

Anthony M. Frank
Postmaster General
of the United States

January 1988



Anthony M. Frank became the 69th
Postmaster General of the United
States on March 1, 1988.

Value Received for the Dollar—1988

This chart illustrates the May 1988 Kuper survey in which respondents said that mail service was the best of the services primarily excellent or good value for the dollar.

50% = Excellent/Good

Source: Kuper Report, May 1988

U.S. Postal Service	59%
Local Telephone Service	52%
Long-Distance Telephone Service	51%
Electric Company	48%
Doctor	47%
Health Insurance	46%
Life Insurance	44%
Hospital Care	42%
Public Transportation	33%
Auto Insurance	33%
Local Property Taxes	29%
Auto Repair Service	25%
Federal Income Tax	22%



United States Postal Service Notes to Financial Statements

September 30, 1988 and 1987

Note 1 Postal Reorganization and Accounting Policies

The United States Postal Service (Postal Service) commenced operations on July 1, 1971, in accordance with the provisions of the Postal Reorganization Act. Its initial capital consisted of the equity of the Government of the United States in the former Post Office Department, with assets carried at original cost less depreciation. All liabilities attributable to operations of the former Post Office Department remained liabilities of the U.S. Government, except that the unexpended balances of appropriations made to, held or used by, or available to the former Post Office Department and all liabilities chargeable thereto became assets and liabilities, respectively, of the Postal Service.

The Postal Service adopted Statement of Financial Accounting Standards (SFAS) No. 95 "Statement of Cash Flows" in Fiscal Year 1988, and accordingly has restated the comparative financial statements for Fiscal Year 1987. Cash equivalents include highly liquid instruments with maturities of 90 days or less in accordance with SFAS No. 9.

Buildings and equipment are depreciated over their estimated useful lives using the straight-line method. Leasehold improvements are amortized over the lesser of the lease period or their useful life. Repairs and maintenance costs which do not materially extend the life of assets are expensed as incurred.

Research and development costs, which relate primarily to new equipment design, are expensed as incurred. Such costs amounted to approximately \$47,000,000 in Fiscal Year 1988 and \$44,000,000 in Fiscal Year 1987.

Workers' compensation costs are recorded as an operating expense in the year of injury at the present value of the total estimated costs of claims. Estimates of the total costs of claims are based upon severity of injury, age, assumed mortality, experience trends and other factors.

Estimated prepaid postage represents the estimated amount of revenue collected prior to the end of the year for which services will be performed in the following year.

Amounts payable for retirement benefits reflect the Postal Service's legal obligation to the Civil Service Retirement and Disability Fund (the Fund) arising from increases in basic pay in an amount equal to the present value of the equal annual installments due to the Fund and payable over a 30-year time period. Amounts applicable to operations of future years are charged to deferred retirement costs and are subsequently amortized through operating expenses.

Effective with the passage of Public Law 99-272, the Postal Service became responsible for paying the employer's share of health benefits for its career employees retiring on or after October 1, 1986. These costs totaled approximately \$53,000,000 in Fiscal Year 1988 and \$30,000,000 in Fiscal Year 1987.

Note 2 Revenue Forgone

Included in operating revenue is revenue forgone. Revenue forgone represents reimbursement

to the Postal Service for revenues lost as a result of charging lower rates for certain mail categories which Congress has determined should be subsidized through tax dollars. Accordingly, the Postal Reorganization Act authorizes that the Postal Service receive revenue forgone to compensate for this lost revenue. Revenue forgone received during Fiscal Years 1988 and 1987 totaled \$517,000,000 and \$650,000,000, respectively.

Note 3 The Omnibus Budget Reconciliation Act of 1987

The Omnibus Budget Reconciliation Act (OBRA) of 1987 required the Postal Service to make additional payments of \$350,000,000 to the Civil Service Retirement and Disability Fund and \$160,000,000 to the Federal Employee Health Benefits Fund during Fiscal Year 1988. Both these amounts are included in expenses for compensation and employee benefits in the Statements of Operations and Changes in Equity (Net Capital Deficiency) for Fiscal Year 1988. For Fiscal Year 1989, the Postal Service is required to pay an additional \$270,000,000 to the Federal Employee Health Benefit Fund.

The OBRA also limited capital investment commitments to \$625,000,000 for Fiscal Year 1988 and \$1,995,000,000 for Fiscal Year 1989 and required a deposit of \$465,000,000 in an escrow account with the U.S. Treasury by October 31, 1988. The deposit is refundable on October 1, 1989 so long as the Postal Service complies with the savings provisions specified by OBRA. The savings provisions require the Postal Service to reduce operating expenses by \$160,000,000 and \$270,000,000 in Fiscal Years 1988 and 1989, respectively. Such provisions were certified by the General Accounting

Office (GAO) as having been met by the Postal Service for Fiscal Year 1988 in their report to Congress on October 31, 1988.

Note 4 Retirement Programs

Description of Plans and Contribution Rates — The Postal Reorganization Act provided that officers and career employees of the Postal Service were to be covered by the Civil Service Retirement Program (the Program). Under this Program, the Postal Service and employees hired prior to January 1, 1984 each contribute 7 percent of basic annual salary to the Civil Service Retirement and Disability Fund (the Fund) and 1.45 percent of gross wages for Social Security for Medicare in 1988 and 1987.

Employees hired between January 1, 1984 and January 1, 1987 were covered by the provisions of the Dual Civil Service Retirement/Social Security System until January 1, 1987. Certain employees with prior government service continue to be covered by such provisions. During Fiscal Years 1988 and 1987, these employees contributed .94 percent and 1.3 percent, respectively, of basic annual salary to the Fund, while the Postal Service contributed 7 percent each year. These employees and the Postal Service each contributed 7.51 percent and 7.15 percent of gross wages for Social Security for Fiscal Years 1988 and 1987, respectively.

From January 1, 1987, employees hired since January 1, 1984, except as noted above, are subject to the provisions of the Federal Employees Retirement System (FERS) Act of 1986. Employees hired prior to January 1, 1984, were able to elect participation in FERS between July 1, 1987 and December 31, 1987.

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United States. Postal
Service.

Comprehensive statements
on postal operations.



**COMPREHENSIVE
STATEMENT
ON
POSTAL
OPERATIONS**

1988

CHAPTER I

COMPLIANCE WITH STATUTORY POLICIES

**A. Fundamental Service to the People
(39 U.S.C. 101(a))**

The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.

1. General

Despite the statutory policy that the costs of the Postal Service should not be apportioned to impair the value of service to the people, Fiscal Year 1988 saw a severe "impairment": The Omnibus Budget Reconciliation Act of 1987 (OBRA) compelled the Postal Service to cancel or postpone most of its planned construction of new facilities and much new equipment needed to enhance service and productivity. These mandated cuts "apportioned" cost reductions between operating costs and capital expenditures in ways that forced current service cutbacks while delaying future service improvements by slashing the Postal Service's capital investment program. This Act reflected the joint effort of the Administration and the Congress to address the Federal deficit following the stock market plunge of October 1987. The Postal Service does not contribute to the Federal deficit over the long term and, under the Postal Reorganization Act must live within its own revenues rather than draw upon taxpayer support. Nevertheless, the Postal Service's budget and programs were subjected to the deficit reduction effort.

Provisions of the OBRA imposed on the Postal Service significant unanticipated and unplanned-for costs. The Act required the Postal Service to make one-time payments in 1988 of \$160 million to the Federal Employee Health Benefits Fund and \$350 million to the Civil Service Retirement Fund, for a total of \$510 million in additional costs to the Fiscal Year 1988 bottom line. The authors of the Act, however, intended that this financial impact be partially mitigated by requiring that the Postal Service reduce its Fiscal Year 1988 operating budget by \$160 million. These cost reductions or "savings" were to be accomplished through clearly observable, measurable cutbacks in operating funds and programs subject to review and verification by the General Accounting Office. The Act specifically precluded the Postal Service

from exercising its borrowing authority to offset required savings or from applying any of the new revenues from the anticipated mid-fiscal year increase in general postage rates to the \$160 million "savings" target.

The OBRA also placed severe restrictions on the Postal Service's ambitious capital investment program. Planned capital commitments of \$2,361 million in Fiscal Year 1988 were reduced by 73.5 percent to \$625 million, the ceiling established in the Act.

Postal management sought to avoid cuts in postal services provided to the mailing public, and most of the required savings were achieved through administrative belt-tightening. However, a review of all options made it clear that some reductions in service were unavoidable. Accordingly, on January 15, 1988, the Postal Service announced the elimination of Sunday mailbox collection service and a limited reduction of about nine percent in post office window service hours—or about one-half day per week. Decisions on the specific hours and days of reduced window services were left to local postal managers in an attempt to mitigate the impact of the cutbacks by addressing local community mailing needs. The reduced service hours were poorly received by the public and led to strong expression of customer dissatisfaction throughout most of Fiscal 1988.

In reordering capital investment priorities to comply with the \$625 million ceiling imposed by the OBRA, postal management decided to minimize the impact on the Postal Service's on-going automation program. Bringing this new equipment on line as soon as possible affords the Postal Service the best opportunity to increase its productivity and hold down future costs. The most severe reductions came in the Postal Service's facilities program. In the long term, the required reductions in the facilities program will prove more damaging than the increased costs mandated by the OBRA, since their consequences for sorely needed improvements and additions to an aging physical plant to cope with ever-growing volumes of mail will be felt for years to come. The average postal owned facility is about 30 years old, and in many cases, inadequate to service fully the growing postal needs of the community in which it is located, and too outdated to provide acceptable working conditions for affected postal employees.

The postal provisions of the OBRA were opposed strongly in 1987 by the postal committee leadership in Congress, the Postal Service, postal unions and management associations, and others in the postal community. As 1988 unfolded, others in the Congress and elsewhere realized that the Act had done unintended damage to the Postal Service in general and its facility program in

COMPREHENSIVE STATEMENT ON POSTAL OPERATIONS

particular. Under the leadership of the postal committee chairmen in the House and Senate, legislation was introduced to remove the Postal Service from the unified Federal budget.

Returning the Postal Service to its previous off-budget status would lessen the likelihood that postal ratepayer funds and Postal Service programs would be used in future efforts to address budgetary problems occurring elsewhere in the Federal government. The Postal Service, postal employee unions, the postal management associations, and large volume mailers endorsed this legislation and actively sought its enactment. Heavily cosponsored, the off-budget legislation passed the House on June 21, 1988, by a vote of 390 to 16. However, the Senate failed to act on the legislation before adjournment, despite its being cosponsored by 74 Senators.

Other developments followed the enactment of the Omnibus Budget Reconciliation Act. On January 2, 1988, increases in health benefit premiums for postal employees took effect, resulting in a 31 percent increase to the Postal Service in the cost of health benefits. On the same day, the salary ceiling for contributions to Social Security and the contribution rate were also increased, putting additional pressures on Postal Service costs.

On March 1, 1988, Anthony M. Frank, former Chairman of the Board and Chief Executive Officer of First Nationwide Bank, was appointed as the 69th Postmaster General, succeeding Preston R. Tisch who returned to private business.

On March 4, 1988, the independent Postal Rate Commission completed its ten-month review of the Postal Service's May 1987 request for a general increase in postage rates, and transmitted its Recommended Decision to the Governors of the Postal Service. The Commission's recommendations largely reflected the Postal Service's request for \$4.3 billion per year in additional revenue. The Board of Governors of the Postal Service ordered the new rates into effect on April 3, 1988. These new rates averaged a 17 percent across-the-board hike and represented the first general increase in postage rates in three years. Even with the new 25-cent First-Class stamp, United States postage rates remain the lowest among western industrialized nations. See Table 1.

Although the Postal Service's filing for new rates and the economic assumptions made in support of that filing preceded by some eight-plus months the additional cost imposed by the Budget Reconciliation Act, the new Postmaster General and all postal employees faced the difficult task of explaining to customers why rates were being increased at the same time service was being cut back.

Re-establishing the public's faith in the Postal Service became a priority for Postmaster General Frank. Early in his tenure he announced his intent to restore full normal window service hours as soon as possible. On September 10, 1988 after ensuring the required budgetary

savings had been achieved, window hours were restored. As was done when service was curtailed, local postmasters were given considerable leeway in determining office hours that would best serve their community.

The new Postmaster General also signaled his intention to increase the interval between rate increases. In an effort to break the three-year cycle, Postal Service management began to examine a number of separate initiatives to increase efficiency and productivity, generate new revenues, and improve employee and customer relations.

The joint Industry/Postal Service task force called the Worksharing Project Work Group, established in May 1988, has focused on the broadest range of possibilities to reduce mail costs and enhance service. Recommendations to senior postal management were submitted in early November 1988 for implementation consideration. Proposals recommended as having the potential for major cost benefits to the Postal Service included improved postage payment systems, reduced carrier in office time through sequencing of carrier route mail, and ways to increase the volume of prebarcoded mail.

The Postal Service is focusing on accelerating its automation program, with a goal of achieving the lowest combined mailer and Postal Service's costs in preparing

TABLE 1

Foreign Postal Rates Compared With United States Rate

Country	Rate for First Unit of Domestic Letter Postage (National Currency)	Converted to U.S. Cents*
1. Italy	650.00 Lira	50.9
2. Japan	60.00 Yen	49.5
3. Germany (Fed. Rep.)	.80 Mark	46.3
4. Norway	2.90 Krona	44.5
5. Austria	5.00 Schilling	41.1
6. Netherlands	.75 Guilder	38.5
7. Sweden	2.30 Krona **	38.3
8. France	2.20 Franc	37.2
9. Belgium	13.00 B. Franc	35.8
10. United Kingdom	.19 Pound	35.2
11. Switzerland	.50 S. Franc	34.5
12. Australia	.39 AS	34.0
13. Canada	.38 CS ***	32.1
14. U.S.A.	.25 US\$	25.0

* Foreign exchange rates prevailing on December 1, 1988. *The Washington Post*, December 2, 1988.

** Effective January 30, 1989.

*** Effective January 1, 1989.

CHAPTER III

FINANCIAL HIGHLIGHTS

A. Financial Results

1. Financial Status

The Fiscal Year 1988 financial status of the Postal Service was impacted significantly by the enactment of the Omnibus Budget Reconciliation Act of 1987 (OBRA), which became effective following the first quarter of the fiscal year. Despite the disruption caused by operating budget reductions mandated under OBRA, and externally imposed cost pressures on several fronts, the Postal Service was able to hold total costs to only 1.7 percent above total revenues in Fiscal Year 1988, and to limit the net loss to \$597 million. Including the net loss experienced in Fiscal Year 1988, cumulative expenses over the past 12-year period have exceeded cumulative revenues by only 0.25 percent demonstrating the Postal Service's ability to meet its statutory mandate to operate on a break-even basis.

As with other sectors of the economy, the cost of providing postal services increased steadily since the general rate increase in February 1985. Along with the normal pressures of inflation, the Postal Service experienced rising costs associated with transportation, supplies, labor, health and retirement benefits, and the continuing expansion of the delivery network to new residences and businesses. That network has grown by over seven million addresses since 1985. These rising costs led the Postal Service to file a request for new rates in May 1987.

Following the Postal Rate Commission's March 4, 1988 Recommended Decision, new postage rates became effective on April 3, 1988 and included a basic one-ounce rate of 25 cents for First-Class letters as part of a 17 percent overall increase. The implementation of the new rates followed the Governors March 22 approval of the March 4, 1988 Recommended Decision of the Postal Rate Commission.

The new postage rates enabled the Postal Service to avoid a much larger loss which would have resulted in Fiscal Year 1988, if new rates had been delayed. While expenses were only 0.2 percent under what was planned, they were significantly higher than in Fiscal Year 1987. This was due, in large part, to several factors which were beyond the direct control of the Postal Service. These factors included a 31 percent increase in health benefit premium costs in January 1988, on top of a 25 percent increase in January 1987. The Federal Employees Health Benefits program is administered by the Office of Personnel Management. Total employee health benefit costs rose from \$1,007 million in Fiscal Year 1987 to \$1,605.7 million in Fiscal Year 1988. Because this trend of double-digit increases is expected to continue in the future, the

Postal Service is in the process of selecting a benefits and actuarial consultant to conduct a study on the feasibility of establishing a Postal Service health care program.

The new Federal Employees Retirement System (FERS) also had a significant impact on Postal Service costs in Fiscal Year 1988. At the end of the fiscal year, 252,912 Postal Service employees were covered by FERS. FERS is much more costly to the Postal Service than the Civil Service Retirement System (CSRS). The cost of FERS in Fiscal Year 1988 was \$734 million higher than the costs that would have resulted had these employees remained in the CSRS plan.

Enactment of the Omnibus Budget Reconciliation Act of 1987 (OBRA) also had a profound impact on Postal Service costs in Fiscal Year 1988. Under OBRA, the Postal Service was required to make payments of \$160 million to the Federal Employees Health Benefits Fund and \$350 million to the Civil Service Retirement Fund, resulting in an increase of \$510 million to postal costs. The Act required the \$510 million to be partially offset by mandated operating cost reductions of \$160 million, leaving a net increase in expense for Fiscal Year 1988 of \$350 million. If the OBRA provisions applicable to the Postal Service had not been enacted, the Fiscal Year 1988 net loss would have been \$350 million lower and much closer to break-even. Please refer to Table 19 for a summary of the financial status of the Postal Service for the two most recent fiscal years.

Meeting the requirements of the OBRA was made more difficult as the Postal Service's Fiscal Year 1988 operating budgets had been subjected to an intensive scrubbing during the internal budget formulation process, and were already one-third accomplished when the OBRA cuts were mandated. In order to comply with provisions of the Act, postal managers went back to the drawing board and re-examined the alternatives. As a result, 10 cost reduction initiatives were implemented in January and February 1988. The 10 cost reduction initiatives are shown in Table 20. While the savings achieved more than met the requirement under the Act, this "success" came at a high cost of frustration and inconvenience for the mailing public.

The OBRA also mandated operating savings of \$270 million during Fiscal Year 1989. These savings will be achieved primarily through a continuation of cost reduction plans put in place during Fiscal Year 1988. Additional Fiscal Year 1989 savings will be generated from the deployment of new automation equipment and enhancements to existing equipment. Additional flat sorters and bar code sorters are being installed, and the

TABLE 19

Income and Expense Statement
(\$ in Millions)

	FY 1987	FY 1988	Increase (Decrease)	
			Amount	%
Income:				
Operating Revenue	31,528	35,036	3,508	11.1
Appropriations	650	517	(133)	(20.5)
Investment Income	327	386	59	18.0
Total Income	32,505	35,939	3,434	10.6
Expenses:				
Personnel and Related Costs	27,229	30,479	3,250	11.9
Other	5,499	6,057	558	10.1
Total Expenses	32,728	36,536	3,808	11.6
Income (Loss)	(223)	(597)	(374)	—

capability of existing letter sorting machines and single-line optical character readers (OCRs), is being upgraded.

TABLE 20

FY 1988 Operating Budget Reductions
(Public Law 100-203)*Description of Cost Reduction Initiatives*

- 1) Administrative personnel cost, travel, training, and supplies and services budget reductions.
- 2) Reduction in Field Division Innovation Funds for research and development projects.
- 3) Implementation of the Carrier Route Information System nationwide. This improves the capability of single-line Optical Character Readers.
- 4) Conversion of some air transportation to less costly highway transportation.
- 5) Conversion of some AMTRAK service to existing highway transportation.
- 6) Changes in highway and rail van dispatch procedures to increase van utilization.
- 7) Elimination of ZIP + 4 Look-Up service at Computer Forwarding sites.
- 8) Elimination of the collection and outgoing processing of mail on Sundays.
- 9) Closing of selected post offices and retail operations December 26, 1987, and January 2, 1988.
- 10) Reduction in window service hours.

The Postal Service understands the importance of reducing the Federal deficit and continues to make real contributions in this area. Because it is self-funding, the Postal Service has reduced Federal budgetary requirements

substantially since the days of the Post Office Department when postal deficits were funded out of general Treasury funds. The 1970 Postal reorganization legislation created a financially independent organization which relies upon the users of the postal system to fund the cost of services provided.

Once postal reorganization was implemented, it was quickly recognized that the budgetary accounts of the new financially independent Postal Service should be excluded from Federal budget totals and reflected as an off-budget entity. This approach worked well for the 12-fiscal year period of 1974-1986. For the Fiscal Year 1986 budget, the Postal Service was administratively placed back "on-budget" by the Administration. Including the Postal Service in the Federal deficit calculation is misleading and inconsistent since the Postal Service, in accordance with its Congressional mandate, is financed on an accrued cost basis and charges the cost of capital investments to users over the life of the asset. This business-type financing approach does not effect the Federal deficit over the long-term.

The Federal budget counts capital investments as outlays when cash payments are disbursed. This difference in accounting methods employed causes the Postal Service to artificially add to the deficit by suggesting that enough postage should be collected currently to pay for all buildings and equipment purchased by the Postal Service each year. The Federal Government's cash accounting approach ignores the fact that valuable assets are acquired by the Postal Service which will be funded through postage rates set to recover asset depreciation charges allocated over the useful life of the asset.

The General Accounting Office (GAO) has recognized this problem and the need for the Federal Government to have a separate capital budget similar to the one used by the Postal Service. As long as the Postal Service remains on-budget the Postal Service will continue to be an easy target for budget cuts needed to solve deficit problems created by other areas of the Federal Government.

UNITED STATES POSTAL SERVICE
WASHINGTON, D.C. 20262

1. Department Complaints

2. Departmental Complaints

3. Departmental Complaints

4. Departmental Complaints

5. Departmental Complaints



**UNITED STATES
POSTAL SERVICE™**

**COMPREHENSIVE
STATEMENT
ON
POSTAL
OPERATIONS**

1989

CHAPTER I

COMPLIANCE WITH STATUTORY POLICIES

A. Fundamental Service to the People (39 U.S.C. 101(a))

The United States Postal Service shall be operated as a basic and fundamental service provided to the people by the Government of the United States, authorized by the Constitution, created by Act of Congress, and supported by the people. The Postal Service shall have as its basic function the obligation to provide postal services to bind the Nation together through the personal, educational, literary, and business correspondence of the people. It shall provide prompt, reliable, and efficient services to patrons in all areas and shall render postal services to all communities. The costs of establishing and maintaining the Postal Service shall not be apportioned to impair the overall value of such service to the people.

1. General

For the Postal Service, 1989 was a year of innovation and introspection. Innovation was seen in moves to automate operations, to reduce expenses, and to devise new products and sources of revenue. In addition to maintaining quality service, the Postal Service made progress in several areas, most notably in worksharing, labor relations, and customer service.

At the same time, the Postal Service confronted several challenges to providing "basic and fundamental service" to the American people: sharply rising costs, slowing growth in volume and revenue, falling productivity, and the continuing constraints imposed by the Omnibus Budget Reconciliation Act of 1987. Together these challenges have brought home to the Postal Service that "business as usual" is no longer sufficient.

The Postal Service commitment to automation deepened in 1989. The Postal Service has deployed approximately 2,000 pieces of major automation equipment—bar code sorters, optical character readers, and flat sorters—and plans call for the purchase of over 20,000 pieces of new or modified automated mail processing equipment and 17,000 integrated retail terminals by 1995 at a cost of \$4 to \$5 billion.

Nowhere is the Postal Service's determination to increase efficiency more apparent than in the effort to bar code virtually all letter and flat mail by 1995. The Postal Service estimates that by 1995 bar code automation has the potential to avoid the need for up to 100,000 workyears compared to operations that are not automated. During 1989, the percentage of letter mail bearing a bar code grew from 7 percent to approximately 30 percent. In August, the Postal Service unveiled a prototype wide-area bar code reader which, when placed in service in 1991, will make it possible for mailers to place bar codes almost anywhere on the face of an envelope. This flexibility will be an added inducement for customers to apply their own bar codes to envelopes.

Automation was extended to postal lobbies with the opening of two "stores of the future" in the Washington, D.C. area. These test sites feature self-service machines which give instant access to information about postal products and prices: sell postage; weigh packages; and calculate and dispense the correct postage.

The Postal Service pushed ahead on several fronts to find new ways to serve customers. A test of contract postal units located in Sears stores found that customers appreciate the convenience of postal services in such locations. Although the program with Sears was terminated, the Postal Service hopes to expand contract postal unit service into major shopping malls throughout the country. Another test underway at 263 sites seeks to determine if facsimile machines in postal lobbies would fulfill customers' needs. Should the test prove successful, the Postal Service will consider installing the equipment in up to 8,000 lobbies. Also under development are new standard designs for drive-in windows for the convenience of postal customers.

Revenue from stamps on consignment, which make stamps available through grocery stores and retail outlets in 25,000 locations, more than tripled in Fiscal Year 1989 compared to the previous fiscal year. This program provides one-stop shopping for customers while easing congestion in postal lobbies.

In September 1989, the Postal Service began a major effort to ascertain "hometown" and national delivery expectations for First-Class Mail by asking business and residential customers to describe their actual mailing needs. This move was prompted by survey results which showed that the Postal Service could enhance customer satisfaction with First-Class Mail delivery by providing more consistent overnight, two-day, and three-day delivery within areas where customers actually require delivery in those time frames. The surveys mark the first systematic effort by the Postal Service to assess customer expectations and needs for First-Class Mail delivery.

Cooperation with mailers grew during the year. The Joint Industry/Postal Service Worksharing Team completed its final report in November 1988 and 12 of the Team's 36 proposals were implemented during 1989. The proposals included simplification of postal regulations so that customers will produce more pre-barcode mail for automated processing and programs to reduce undeliverable-as-addressed mail. Though seven of the proposals will be included with other requests in the next general rate case, the other 17 proposals are scheduled for implementation in 1990.

A variety of labor-management programs designed to reduce tensions in the workplace resulted in an unprecedented decrease of 53.5 percent in grievances appealed to the regional

COMPREHENSIVE STATEMENT ON POSTAL OPERATIONS

level in Fiscal Year 1989 compared to Fiscal Year 1988. These reductions did not stem from unilateral action by the Postal Service, but rather reflect the cooperative efforts of all parties. Of particular note was a joint agreement between the National Association of Letter Carriers and the Postal Service to reduce grievances appealed to Step 3 by half during Fiscal Year 1989. That goal was surpassed with Step 3 appeals falling by 66 percent.

In February, the Postmaster General and the Presidents of the National Association of Postmasters of the United States, the National Association of Postal Supervisors, and the National League of Postmasters of the United States signed a joint commitment to Management By Participation. Under this process, the parties work together to develop and foster cooperative efforts to improve communications, working relationships, and increased levels of trust and commitment within management ranks. To centralize planning and control of international business products, the Office of International Product Coordination was created in March 1989. This office, which reports directly to the Associate Postmaster General-International, is charged with coordinating postal goals, objectives, and strategies for the international marketplace. It is responsible for ensuring a cohesive organizational effort to increase the net contribution of international mail to postal revenues.

The Postal Service hosted the 20th Universal Postal Union Congress in Washington, D.C., from November 13 to December 14, 1989. Only the second such gathering to be held in the United States, the Congress attracted over 1,300 delegates from 156 postal administrations. The Congress' major accomplishments included consideration of a major change in the existing terminal dues structure and rates, and development of significant mail security initiatives. The U.S. Postal Service was selected to chair the Executive Council of the Universal Postal Union for the years 1990-1994. The Executive Council, whose overall responsibility and authority was expanded, carries on the work of the Universal Postal Union between Congresses.

Mail service performance in Fiscal Year 1989 differed little from levels achieved in the previous fiscal year. First-Class stamped mail scheduled for overnight delivery arrived on schedule 94 percent of the time, compared to 95 percent in Fiscal Year 1988.

The year was marked by slow mail volume growth, increased costs, and lower productivity. Overall mail volume grew only 0.4 percent in Fiscal Year 1989, compared to an average annual growth of over 5 percent in Fiscal Years 1985-1988.

Less-than-expected revenue, coupled with greater-than-expected costs, resulted in the Postal Service ending Fiscal Year 1989 with a net income of \$61 million, compared to a planned net income of about \$600 million. However, Postmaster General Anthony M. Frank indicated that current postal rates will remain unchanged until 1991. Those rates remain lower than rates found in other industrialized countries (see Table 1).

Major steps to control costs were taken in 1989. A work group of field and Headquarters representatives was established in

April to identify potential savings and efficiencies. One result was the consolidation of two divisions and 36 management sectional centers. This action, implemented in September, eliminated approximately 1,200 positions and will net annual savings of \$30-35 million. Progress was also made on limiting the number of employees: during the final months of Fiscal Year 1989, complement controls reduced the total number of career employees by about 10,000.

The Postal Service is concerned that volume and revenue growth have slowed since the April 1988 rate increase and that expenses rose at almost twice the rate of inflation in Fiscal Year 1989. While some costs—such as a 32 percent increase in total employee health benefit expenses—were not under direct Postal Service control, it became clear that strong action was necessary. To reduce the projected Fiscal Year 1990 deficit to a budgeted loss of \$1.6 billion, Headquarters and field managers were asked in mid-1989 to find \$600 million in savings. The resulting Fiscal Year 1990 budget represents one of the most aggressive commitments to cost control ever made by the Postal Service. It includes a planned 1.3 percent increase in Total Factor Productivity, one of the most ambitious productivity goals the Postal Service has ever set.

Provisions of the Omnibus Budget Reconciliation Act (OBRA) of 1987 continued to have an impact on postal operations and finances in Fiscal Year 1989. The Postal Service was required to pay \$270 million into the Federal Health Benefits Fund and offset the payment from operating budget savings. Also injurious to the Postal Service's long-term

TABLE 1

Foreign Postal Rates Compared
With United States Rate

Country	Rate for First Unit of Domestic Letter Postage (National Currency)	Postage Converted to U.S. Cents*
1. Germany (Fed. Rep.)	1.00 Deutsche Mark	58.1
2. Italy	650.00 Lira	50.5
3. Norway	3.00 Krone	44.8
4. Japan	62.00 Yen	43.1
5. Austria	5.00 Schilling	41.0
6. Netherlands	0.75 Guilder	38.5
7. Sweden	2.40 Krona	38.2
8. France	2.20 Fr. Franc	37.1
9. Belgium	13.00 B. Franc	35.7
10. Canada	0.38 C. \$	32.4
11. Australia	0.41 A. \$	32.1
12. Switzerland	0.50 S. Franc	32.1
13. United Kingdom	0.20 Pound	32.0
14. U.S.A.	0.25 U.S. \$	25.0

* Based on foreign exchange rates as published in *The Washington Post* on December 20, 1989.

financial health was the second year of limitations the OBRA placed on the capital investment program. Capital investment commitments were limited to \$1.995 billion during Fiscal Year 1989. Coupled with the limits imposed during the previous fiscal year, the restrictions cut the number of planned major capital projects by half during Fiscal Years 1988-1989.

The adverse effects of the 1987 OBRA will be felt for years by the Postal Service and its customers. Mandated reductions in the operating budget forced a focus on short-term savings at the expense of long-term gains and triggered adjustments in service which were felt by customers. In capital investment commitments, every new facility that was canceled or deferred represents lost savings and future additional costs.

As in 1988, the leadership of the postal committees in Congress, recognizing the deleterious effects of the OBRA on the Postal Service, introduced legislation to restore the Postal Service to the off-budget status it enjoyed from 1974 to 1985. The legislation was supported by the Postal Service, major mailers, and postal unions and management associations. The principle of off-budget status for the Postal Service was accepted as part of the April 14 "Bipartisan Budget Agreement for 1990" and was incorporated into the First Concurrent Resolution on the Fiscal Year 1990 Budget. On September 12, 1989, the House followed up by passing legislation taking the Postal Service off-budget by a margin of 405 to 11. The Omnibus Budget Reconciliation Act of 1989, which received final Congressional approval on November 21, and was signed into law (P.L. 101-239) on December 19, contained a provision taking the Postal Service off budget.

2. Strategic Planning

Strategic planning in the Postal Service is an on-going process. During 1989 the strategic outlook developed in 1988 was reviewed and updated, culminating in a new strategic plan covering the years 1990-1995. In the next six years the challenges confronting the Postal Service fall into three areas: quality service, reasonable rates, and employee commitment.

There will be higher customer expectations in evaluating what constitutes quality service. And, of course, quality service is subject to the interpretation of numerous and diverse parties. Keeping rates reasonable depends on the significant change-over to automation, capturing the productivity potential from automation and other programs, and restraining the increases in resource prices below those in the private economy.

Attaining quality service and reasonable rates are critically dependent on the commitment of all postal employees. Therefore, the Postal Service must involve, motivate, and tap the discretionary effort of its workers. Specific objectives and strategies have been set to meet these challenges.

The quality service objective is to increase the level of customer satisfaction with postal services. Four strategies to meet this objective are: (1) maintain service levels in 1990 in spite of significant resource constraints; (2) align mail delivery standards more closely with customer needs and meet these standards with a higher level of consistency; (3) implement a direct, external measure of customer satisfaction that will provide quantitative measures so remedial action can be

taken, and an additional external measure to monitor deposit-to-delivery service performance on a national basis; (4) expand customer options and reduce content-based restrictions and complexities in the mail classification schedule. Develop market-oriented mail classes based on the service provided, the degree of mailer preparation, and the cost characteristics of the type of mail.

The employee commitment objective is to create a working environment that fosters, at all levels, increased commitment to the achievement of quality service at reasonable rates. The strategies to meet this objective are: (1) communicate effectively and credibly to all employees the values, goals, and objectives of the Postal Service; (2) develop, as one means of employee feedback, quantitative surveys, tracking changes in employee attitudes and concerns; (3) improve relationships throughout the Postal Service by working with the postal unions and management associations and by positive and consistent use of the selection, training, appraisal, and reward systems; (4) improve motivation and performance, both group and individual, through measurement, recognition, and results-based compensation.

The reasonable rates objective is to bring cumulative inflation in postal costs below inflation in the economy during the planning period. To meet this objective the following strategies were identified: (1) implement the Corporate Automation Plan; (2) fully capture, through active management and careful budgeting, productivity gains from automation and other programs; (3) increase the revenue contribution to institutional costs from areas where there are opportunities for increased business; (4) negotiate labor agreements that restrain the growth in average cost per work hour below that in the private sector, and increase productivity, through some combination of structural changes (new job categories, flexibility, additional extended steps, etc.), controlling the cost of health and other benefits, and simple wage restraint.

Conceptually, that means that over the six-year planning period the Postal Service will restrain inflation in postal costs so they are below inflation in the economy. The Postal Service estimates that inflation on postal costs must be restrained a total of 12.5 percent over this period. To achieve this result, since it is quantitative in nature, the Postal Service established numeric strategic goals in each of the following three areas:

1. With respect to productivity, the Postal Service intends to implement the Corporate Automation Plan and fully capture, through careful budgeting, productivity gains from automation and other programs. The accomplishment of these plans will mean a cumulative increase in total factor productivity of 4.7 percent by 1995. While this may not sound dramatic, it represents a \$3 billion reduction in Fiscal Year 1995 postal costs. This is achievable through implementation of the Corporate Automation Plan and other specific cost reduction programs. Productivity plans offset 4.7 percent of the required 12.5 percent over the planning period.

2. The revenue contribution strategy is to increase the revenue contribution to overhead costs from areas where there are opportunities for increased business. Present plans are estimated to provide 2 to 3 percent to offset inflation in postal

CHAPTER III

FINANCIAL HIGHLIGHTS

A. Financial Results

1. Financial Status

The Postal Service realized a modest net income of \$61 million in Fiscal Year 1989, thus continuing to meet its statutory mandate to operate on a break-even basis over time. The Fiscal Year 1989 operating results reduced cumulative expenses to only two-tenths of one percent more than cumulative revenues over the 13-year period since Fiscal Year 1976.

Fiscal Year 1989 continued a period of financial transition for the Postal Service. Cost pressures from a number of extraordinary factors, some of which were beyond the direct control of the Postal Service, resulted in total expenses continuing to increase significantly. The reality of most of these cost pressures, which include health benefit premiums and the impact of legislative changes, was reflected in the estimated net income of \$561 million for Fiscal Year 1989 as reported in the Fiscal Year 1990 Congressional budget submission. Actual expenses were higher than estimated, but by less than 1.0 percent. Total revenue was also close to what was estimated on a percentage basis, falling short by less than 1.0 percent. Actual results that are within one percent of revenue and expense projections would be considered very accurate by many private businesses. However, in the case of the Postal Service, these small percentage variances resulted in a net income which was \$500 million lower than planned. Please refer to Table 17 for a summary of the financial status of the Postal Service for the two most recent fiscal years.

Federal Employee Health Benefit (FEHB) premiums, administered by the Office of Personnel Management, continued to be a serious problem in Fiscal Year 1989. The Postal Service's share of health benefit premiums for its active employees increased by an average of 24 percent in January 1989, on top of a 31 percent increase in January 1988 and a 25 percent increase in January 1987. Health benefits cost the Postal Service \$517 million more in Fiscal Year 1989 than in Fiscal Year 1988 and have more than doubled over the past three years as a result of the combined effects of double digit premium increases, growth in the number of post-1986 annuitants, and the FEHB payments required by the Omnibus Budget Reconciliation Act of 1987 (OBRA.) (See Table 22.) The Postal Service is re-evaluating its options relative to health benefits, due to a projected continuation of double digit increases in Federal premiums for the foreseeable future.

The new Federal Employees Retirement System (FERS) continued to impact on Postal Service finances in Fiscal Year 1989. At the end of Fiscal Year 1989, approximately 289,000 or 37 percent of career postal employees were covered by FERS. The FERS is more costly to the Postal Service than the Civil Service Retirement System (CSRS). The cost of the FERS in Fiscal Year 1989 was more than \$900 million higher

than the costs that would have resulted had these employees been under the CSRS plan. The Fiscal Year 1989 cost was \$278 million or 24 percent higher than the FERS cost in Fiscal Year 1988.

The Omnibus Budget Reconciliation Act of 1987 (OBRA) continued to impact adversely on Postal Service finances in Fiscal Year 1989. During its second year under the OBRA, the Postal Service was required to make an extraordinary \$270 million payment to the Federal Employees Health Benefits Fund. This was on top of extraordinary payments in Fiscal Year 1988 of \$160 million to the Federal Employees Health Benefits Fund and \$350 million to the Civil Service Retirement System. The Act required that the \$270 million Fiscal Year 1989 payment be offset by operating cost reductions which reduced the opportunity for these initiatives to have been undertaken unilaterally by the Postal Service. As a result, the Postal Service was placed in the position of simply trading water to offset externally imposed costs rather than realizing an improvement in its financial condition. Some of the initiatives undertaken in Fiscal Years 1988 and 1989 would have been implemented in the absence of the OBRA, thereby improving both years' financial performance, if the \$160 million and \$270 million payments had not been required from those savings.

The mandated Fiscal Year 1989 OBRA savings were accomplished mainly through a continuation of cost reduction plans put in place during Fiscal Year 1988. The General Accounting Office (GAO) found that "... the Postal Service's overall efforts provided more than the \$270 million in savings mandated by the Reconciliation Act. Thus, the Postal Service complied with the Act in 1989." Fiscal Year 1989 cost reduction initiatives are shown in Table 18.

The OBRA also limited capital investment commitments to \$625 million in Fiscal Year 1988 and \$1,995 million in Fiscal Year 1989. This represented a two-year reduction of 50 percent or \$2.4 billion from the original plan. Close to 800 real estate projects were stopped or curtailed, many of which can never be reinstated in their original form because the sites are no longer available. Many will be completed at a much higher cost. Also curtailed were commitments for vehicles, customer service, mail processing and postal support equipment.

The results of the OBRA of 1987 provided a strong argument for returning the Postal Service to its former off-budget status which worked well for the 12 Fiscal Year period 1974-1985. It has been demonstrated that including the Postal Service in the Federal deficit calculation is both misleading and inconsistent since the Postal Service, in accordance with its legislative mandate, uses a businesslike accrual method of accounting to determine postage rates, and charges the cost of capital investments to postal customers over the life of the asset. This method is at variance with the cash accounting system used by

the rest of the Federal Government. The Federal cash accounting system counts capital investments as outlays when cash payments are disbursed. Despite the fact that the Postal Service's business-type financing approach does not impact the Federal deficit over the long term, the Postal Service often was perceived as a problem by those who had to deal with the annual effort to reduce the Federal budget deficit.

This difference in accounting methods employed caused the Postal Service to add artificially to the deficit by suggesting that enough postage should be collected currently to pay for all buildings and equipment purchased by the Postal Service each year. The Federal Government's cash accounting approach ignores the fact that valuable assets are acquired by the Postal Service which will be funded through postage rates set to recover the cost of assets over their useful lives rather than in one year.

The General Accounting Office (GAO) has recognized this problem and the need for the Federal Government to have a separate capital budget similar to the one used by the Postal Service. As long as the Postal Service remained on-budget, the Postal Service continued to be an easy target for budget cuts needed to solve deficit problems created by other areas of the Federal Government. Provisions included in the 1989 Omnibus Budget Reconciliation Act (Public Law 101-239) corrected this problem by removing the Postal Service from the unified Federal budget and exempting it from the provisions of the Balanced Budget and Emergency Deficit Control Act of 1985 (Gramm-Rudman-Hollings).

In addition to being returned to its former "off-budget" status, separate legislation also increased the Postal Service's statutory borrowing authority by \$2.5 billion in Fiscal Year 1991 and an additional \$2.5 billion in Fiscal Year 1992 for a revised total of \$15 billion. The original debt ceiling of \$10 billion established by the Postal Reorganization Act was intended to last ten years, and was inadequate for today's postal organization. In 1972, when borrowing was first utilized, postal revenues totaled \$9 billion. In Fiscal Year 1989, postal revenues were close to \$39 billion. When adjusted for inflation, a borrowing ceiling of about \$30 billion would be more appropriate. When contracts that have been signed but not completed were considered, the \$10 billion borrowing authority would have been committed before the end of Fiscal Year 1990, if no changes had been made.

This would have adversely affected the Postal Service's capital investment program which has been financed through borrowing since 1985 (some borrowing for capital was also done during Fiscal Years 1972-1976). Since the Postal Service is prohibited by law from making a profit, borrowing provides the only long-term source of funds to pay for capital investments needed to increase the efficiency of operations.

The Postal Service recognizes that interest expense on debt is a real cost. However, the costs of prudent borrowing to fund modernization are outweighed by the costs of not obtaining the necessary plant and equipment which include manual and mechanized mail-handling costs that could be avoided with the use of modern automation and the additional purchase costs caused by inflation over the period of delay. In addition,

to the economic advantages of borrowing to modernize inadequate, outdated postal facilities, service obligations to postal customers are met best by promptly obtaining state-of-the-art equipment to ensure the expeditious handling and delivery of increasing mail volumes. Cash to pay for capital investments is obtained from the issuance of long-term debt which is repaid over the useful life of the asset.

Some critics have charged that the Postal Service is not really self-sufficient because it receives substantial "indirect" subsidies for Civil Service Retirement System (CSRS) annuitant cost-of-living adjustments (COLAs) and annuitant health benefits.

This has been used, by some, as an argument for keeping the Postal Service "on-budget." The Postal Service has never objected in principle to funding costs attributable to its operations, observing that such decisions are a Congressional prerogative. Congress also decided, as part of 1989 Omnibus Budget Reconciliation legislation, that the postal system is ready financially to begin funding these indirect subsidies. The Postal Service will assume liability for CSRS COLAs for postal retirees who have retired after September 30, 1986, and their survivors. The liability will be apportioned to reflect the ratio of postal and non-postal service time and will be amortized over 15 years. The Postal Service will also assume the liability for the employer share of Federal Employees Health Benefit premiums for survivors of those postal annuitants who retired after September 30, 1986 for whom the Postal Service already pays the employer's share of the premium.

Enactment of this legislation completes the orderly absorption of these costs by the Postal Service which has been gradually taking place as intended by Congress. The Postal Service has already assumed responsibility for the health benefit cost of all postal employees who retired after September 30, 1986. In Fiscal Year 1989, the Postal Service paid \$100.4 million for annuitant health benefits, up from \$52.9 million in Fiscal Year 1988. Similarly, the Postal Service is paying the full cost of retirement benefits for employees hired after December 31, 1983. These employees are covered by the Federal Employees Retirement System (FERS). The effective dates of these changes were established far enough in advance to allow the associated costs to be built into new postage rates when the last rate case was filed. Consequently, these costs are now funded by postal ratepayers, not taxpayers. The enactment of this legislation as part of the 1989 Omnibus Budget Reconciliation Act transfers the last remaining indirect subsidy costs with sufficient lead-in time to enable the Postal Service to include them in the next general rate case.

Fiscal Year 1989 was also the first full year during which the current new postage rates were in effect. In the last rate case, Fiscal Year 1989 was the year used to develop estimated costs upon which current postage rates were based. There was a great deal of confusion during Fiscal Year 1989 regarding the Postal Service's financial performance because many postal observers continued to use rate case estimates, which had been overtaken by the events of the past two years. Instead, the Postal Service used its current operating plan, which incorporated the impact of more recent events and was, therefore, a more appropriate standard against which to measure

actual events. The rate case assumed a total factor productivity (TFP) increase of 2.2 percent for Fiscal Year 1988 and 1.0 percent for Fiscal Year 1989. This compares to actual TFP of -0.2 percent for Fiscal Year 1988 and -0.8 percent for Fiscal Year 1989. Comparisons made by the Postal Rate Commission (PRC) and others assumed that the provision for contingencies included in the rate case would not be used and a \$1.6 billion net income would result. Based on history, which shows that unplanned events have occurred in the past, that was not a realistic assumption. The rate case estimated that a net income of \$265 million would result in Fiscal Year 1989, assuming all of the contingency was used to offset unanticipated costs or revenue shortfalls. A net income of \$1.6 billion could have occurred only if none of the contingency was needed. The Postal Service's Fiscal Year 1989 budget, which assumed a net income of \$561 million, was based on productivity targets that recognized Fiscal Year 1988 actual events and the fact that a significant amount of the contingency would be used.

Lower than estimated productivity and higher than estimated health benefits were the most significant differences between the Fiscal Year 1989 budget and the rate case estimate. A report issued by the PRC on postal automation implied that because the Postal Service's financial results were less than the projections made in the rate case, automation must not be generating savings. A Postal Service analysis, using the exact same method as employed by the Commission and using the most recent data, shows substantial savings over the past two years. The Postal Service does not dispute the fact that its costs are rising faster than is desirable or that recent productivity has been disappointing and these realities have been consistently acknowledged. The integration of complex new equipment into the system has proven more difficult than expected and the savings generated by the Postal Service's cost reduction programs are not being fully captured. This is a short-term start up problem that is being resolved. The realities are, however, that a substantial loss will occur in Fiscal Year 1990 despite severe internally imposed budget restric-

TABLE 16

**Fiscal Year 1989
Operating Budget Reductions
(Public Law 100-203)**

Continuation of Cost Reduction Initiatives Begun In Fiscal Year 1988:

- 1) Servicewide Administrative Cost Reduction program.
- 2) Carrier Route Information System sortation.
- 3) Converted some air transportation to highway transportation.
- 4) Eliminated selected AMTRAK service.
- 5) Increased load requirements for Bulk Mail Center rail/highway vans transportation.
- 6) Eliminated outgoing distribution on Sundays.

Additional Cost Reduction Initiatives Not Included in the Fiscal Year 1988 Implementation Plan:

- 1) Carrier Route Information System (CRIS) sortation for Burroughs Optical Character Reader (OCR).
- 2) Phase II Bar Code Sorter (BCS).
- 3) Letter Sorting Machine (LSM) modification.
- 4) Model 775 Flats sorting machine (FSM).
- 5) Transportation.
- 6) Non-Bargaining merit salary increases.

tions, such as complement/hiring plans; field organization restructuring; special management initiatives developed by a task force made up of Headquarters, regional, and field executives; and local productivity improvements. These budget restrictions will enable the Postal Service to delay a rate increase until sometime in Fiscal Year 1991. The ability of the Postal Service in the future to either lengthen the time be-

TABLE 17

**Income and Expense Statement
(\$ in Millions)**

	FY 1988	FY 1989	Increase (Decrease)	
			Amount	%
Income				
Operating Revenue	35,036	37,979	2,943	8.4
Appropriations	517	436	(81)	(15.6)
Investment Income	386	507	119	30.8
Total Income	35,939	38,920	2,981	8.3
Expenses				
Personnel and Related Costs	30,479	32,368	1,889	6.2
Other	6,057	6,497	434	7.2
Total Expenses	36,536	38,865	2,329	6.4
Income (Loss)	(597)	61	658	—

ATTACHMENT B

1999 Headquarters Memos to Field on Holiday Operations

January 6, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

SUBJECT: Operations Policy for the Martin Luther King Birthday Holiday

This memorandum provides operating policy guidelines for holiday planning for the 1999 Martin Luther King Birthday holiday weekend.

Saturday, January 16, 1999:

Normal Saturday service levels in processing, delivery, collection, and retail services will be provided. All delivery units should take necessary actions prior to this date to ensure that units are in a current status.

Sunday, January 17, 1999:

Normal Sunday service levels as displayed in Exhibit 125.22 of the Postal Operations Manual.

Martin Luther King's Birthday "Not widely Observed," Monday, January 18, 1999:

There will be no delivery (Express Mail excepted), no retail activities, and no outgoing processing, unless approved by the Area Vice President. At a minimum, collections are to be scheduled from all Time Decal boxes and other collection boxes as necessary to prevent them from overflowing. This includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must carefully evaluate the service needs of their communities and determine what level of service is warranted.

Since Bulk Mail Centers will be open for processing, mailers will be able to schedule drop shipment appointments for Martin Luther King's Birthday. Similarly, processing plants should accommodate major mailers who want to drop ship and claim the DSCF rate. Therefore, drop shipment appointments should be made available for January 18, 1999.

Tuesday, January 19, 1999:

Return to normal service levels.

All offices should carefully review their staffing plans for these holidays, and make adjustments as necessary, to ensure that the service needs of their communities are attained with no service disruptions.

Please disseminate this information to the appropriate personnel in your Area.

(SIGNED)

(SIGNED) MICHAEL F. SPATES

Walter O'Tormey
Manager, Processing Operations

Michael F. Spates
Manager, Delivery

cc: Clarence Lewis
Allen Kane
John Rapp



February 5, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

SUBJECT: Operations' Policy for the Washington's Birthday Holiday

This memorandum provides operating policy guidelines for holiday planning for the 1999 Washington's Birthday holiday weekend.

Saturday, February 13, 1999:

Normal Saturday service levels in processing, delivery, collection, and retail services will be provided. All delivery units should take necessary actions prior to this date to ensure that units are in a current status.

Sunday, February 14, 1999:

Normal Sunday service levels as displayed in Exhibit 125.22 of the Postal Operations Manual.

Washington's Birthday "Not Widely Observed," Monday, February 15, 1999:

There will be no delivery (Express Mail excepted), no retail activities, and no outgoing processing, unless approved by the Vice President, Area Operations. At a minimum, collections are to be scheduled from all Time Decal boxes and other collection boxes as necessary to prevent them from overflowing. This includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must carefully evaluate the service needs of their communities and determine what level of service is warranted.

Since Bulk Mail Centers will be open for processing, mailers will be able to schedule drop shipment appointments for Washington's Birthday. Similarly, processing plants should accommodate major mailers who want to drop ship and claim the DSCF rate. Therefore, drop shipment appointments should be made available for February 15, 1999.

Tuesday, February 16, 1999:

Return to normal service levels.

All offices should carefully review their staffing plans for these holidays, and make adjustments as necessary, to ensure that the service needs of their communities are attained with no service disruptions.

Please disseminate this information to the appropriate personnel in your area.

Walter O'Tormey
Manager, Processing Operations

Michael F. Spates
Manager, Delivery

cc: C. E. Lewis
Allen Kane
John Rapp

475 L'ENFANT PLAZA SW
WASHINGTON DC 20260



May 11, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

SUBJECT: Operations' Policy for the Memorial Day Holiday

This memorandum provides operating policy guidelines for holiday planning for the 1999 Memorial Day holiday weekend.

Saturday, May 29, 1999:

Normal Saturday service levels in processing, delivery, collection, and retail services will be provided. All delivery units should take necessary actions prior to this date to ensure that units are in a current status.

Sunday, May 30, 1999:

Normal Sunday service levels as displayed in Exhibit 125.22 of the Postal Operations Manual.

Memorial Day "Widely Observed," Monday, May 31, 1999:

There will be no delivery (Express Mail excepted), no retail activities, and no outgoing processing, unless approved by the Vice President, Area Operations. At a minimum, collections are to be scheduled from all Time Decal boxes and other collection boxes as necessary to prevent them from overflowing. This includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must carefully evaluate the service needs of their communities and determine what level of service is warranted.


Since Bulk Mail Centers will be open for processing, mailers will be able to schedule drop shipment appointments for Memorial Day. Similarly, processing plants should accommodate major mailers who want to drop ship and claim the DSCF rate. Therefore, drop shipment appointments should be made available for May 31, 1999.

Tuesday, June 1, 1999:

Return to normal service levels.

All offices should carefully review their staffing plans for this holiday, and make adjustments as necessary, to ensure that the service needs of their communities are attained with no service disruptions.

Please disseminate this information to the appropriate personnel in your area.


Walter O'Tormey
Manager, Processing Operations


Michael F. Spates
Manager, Delivery

cc: C. E. Lewis
Allen Kane
John Rapp



June 15, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

SUBJECT: Operations' Policy for the Independence Day Holiday, July 4, 1999

This memorandum provides operating policy guidelines for holiday planning for the 1999 Independence Day holiday weekend.

Saturday, July 3, 1999:

Normal Saturday service levels in processing, delivery, collection, and retail services will be provided. All delivery units should take necessary actions prior to this date to ensure that units are in a current status.

Independence Day "Widely Observed" Sunday, July 4, 1999:

Normal Sunday service levels as displayed in Exhibit 125.22 of the Postal Operations Manual.

Monday, July 5, 1999 "Holiday Observed":

There will be no delivery (Express Mail excepted), no retail activities, and no outgoing processing, unless approved by the Vice President, Area Operations. At a minimum, collections are to be scheduled from all Time Decal boxes and other collection boxes as necessary to prevent them from overflowing. This includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must carefully evaluate the service needs of their communities and determine what level of service is warranted.

Tuesday, July 6, 1999:

Return to normal service schedules.

All offices should carefully review their staffing plans for this holiday, and make adjustments as necessary, to ensure that the service needs of their communities are attained with no service disruptions.

Please disseminate this information to the appropriate personnel in your area.


Walter O'Tormey
Manager, Processing Operations


Michael F. Spates
Manager, Delivery

cc: Mr. Lewis
Mr. Kane
Mr. Potter
Mr. Rapp



August 10, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

SUBJECT: Operations Policy for Labor Day Holiday - September 6, 1999

This memorandum provides operating policy guidelines for holiday planning for the 1999 Labor Day holiday weekend. Holiday Service Levels for the following dates will be as displayed in Exhibit 125.22 of the Postal Operations Manual.

Saturday, September 4, 1999:

Normal Saturday service levels in processing, delivery, collection, and retail services will be provided. All delivery units should take necessary actions prior to this date to ensure that units are in a current status.

Sunday, September 5, 1999:

Normal Sunday service levels as displayed in Exhibit 125.22 of the Postal Operations Manual.

Labor Day "Widely Observed," Monday, September 6, 1999:

There will be no delivery (Express Mail excepted), no retail activities, and no outgoing processing, unless approved by the area vice president. At a minimum, collections are to be scheduled from all Time Decal boxes and other collection boxes as necessary to prevent them from overflowing. This includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must carefully evaluate the service needs of their communities and determine what level of service is warranted.

As we are into the fall mailing season, drop ship mailers will require appointments and we need to staff accordingly to honor our commitments to the mailing industry.


Tuesday, September 7, 1999:

Return to normal service schedules.

All offices should carefully review their staffing plans for the upcoming holiday, and make adjustments as necessary, to ensure that the service needs of their communities are attained with no service disruptions. Actions should be taken to manage the potential for a spike in delayed parcels on Tuesday.

Please disseminate this information to the appropriate personnel in your area. All questions should be directed to Doug Wynkoop at (202) 268-2463.


for Walter O'Tormey
Manager, Processing Operations


Michael F. Spates
Manager, Delivery



September 10, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

SUBJECT: Operations Policy for Columbus Day Holiday – October 11, 1999

This memorandum provides operating policy guidelines for holiday planning for the 1999 Columbus Day holiday weekend. Holiday Service Levels for the following dates will be as displayed in Exhibit 125.22 of the Postal Operations Manual.

Saturday, October 9, 1999:

Normal Saturday service levels in processing, delivery, collection, and retail services will be provided. All delivery units should take necessary actions prior to this date to ensure that units are in a current status.

Sunday, October 10, 1999:

Normal Sunday service levels as displayed in Exhibit 125.22 of the Postal Operations Manual.

Columbus Day "Not Widely Observed," Monday, October 11, 1999:

There will be no delivery (Express Mail excepted), no retail activities, and no outgoing processing, unless approved by the area vice president. At a minimum, collections are to be scheduled from all Time Decal boxes and other collection boxes as necessary to prevent them from overflowing. This includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must carefully evaluate the service needs of their communities and determine what level of service is warranted.

As we are into the fall mailing season, drop ship mailers will require appointments and we need to staff accordingly to honor our commitments to the mailing industry.


Tuesday, October 12, 1999:

Return to normal service schedules.

All offices should carefully review their staffing plans for the upcoming holiday, and make adjustments as necessary, to ensure that the service needs of their communities are attained with no service disruptions. Actions should be taken to manage the potential for a spike in delayed parcels on Tuesday.

Please disseminate this information to the appropriate personnel in your area. All questions should be directed to Doug Wynkoop at (202) 268-2463.


Walter O'Tormey
Manager, Processing Operations


Michael F. Spates
Manager, Delivery



October 21, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

SUBJECT: Operations Policy for Veterans Day Holiday – November 11, 1999

This memorandum provides operating policy guidelines for holiday planning for the 1999 Veterans Day holiday. Holiday Service Levels for the following dates will be as displayed in Exhibit 125.22 of the Postal Operations Manual.

Wednesday, November 10, 1999:

Normal Wednesday service levels in processing, delivery, collection, and retail services will be provided. All delivery units should take necessary actions prior to this date to ensure that units are in a current status.

Veterans' Day "Not Widely Observed," Thursday, November 11, 1999:

There will be no delivery (Express Mail excepted), and no retail activities. At a minimum, collections are to be scheduled from all Time Decal boxes and other collection boxes as necessary to prevent them from overflowing. This includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must carefully evaluate the service needs of their communities and determine what level of service is warranted.

Operations can expect mail volumes to be approximately half of a normal Thursday. As we are into the fall mailing season, drop ship mailers will require appointments and we need to staff accordingly to honor our commitments to the mailing industry during this holiday period.


Friday, November 12, 1999:

Return to normal service schedules.

All offices should carefully review their staffing plans for the upcoming holiday, and make adjustments as necessary, to ensure that the service needs of their communities are attained with no service disruptions. Actions should be taken to manage the potential for a spike in delayed parcels on Friday.

Please disseminate this information to the appropriate personnel in your area. All questions should be directed to Doug Wynkoop at (202) 268-2463.


Walter O'Tormey
Manager, Processing Operations


Michael F. Spates
Manager, Delivery



November 15, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

SUBJECT: Operations Policy for Thanksgiving Day Holiday – November 25, 1999

This memorandum provides operating policy guidelines for holiday planning for the 1999 Thanksgiving Day holiday. Holiday Service Levels for the following dates will be as displayed in Exhibit 125.22 of the Postal Operations Manual.

Wednesday, November 24, 1999:

Normal Wednesday service levels in processing, delivery, collection, and retail services will be provided. All delivery units should take necessary actions prior to this date to ensure that units are in a current status.

Thanksgiving Day "Widely Observed," Thursday, November 25, 1999:

There will be no delivery (Express Mail excepted), and no retail activities. At a minimum, collections are to be scheduled from all Time Decal boxes and other collection boxes as necessary to prevent them from overflowing. This includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must carefully evaluate the service needs of their communities and determine what level of service is warranted.

As we are into the fall mailing season, drop ship mailers will require appointments and we need to staff accordingly to honor our commitments to the mailing industry during this holiday period.


Friday, November 26, 1999:

Return to normal service schedules.

All offices should carefully review their staffing plans for the upcoming holiday, and make adjustments as necessary, to ensure that the service needs of their communities are attained with no service disruptions. Actions should be taken to manage the potential for a spike in delayed parcels on Friday.

Please disseminate this information to the appropriate personnel in your area. All questions should be directed to Doug Wynkoop at (202) 268-2463.


Walter O'Tormey
Manager, Processing Operations


Michael F. Spates
Manager, Delivery

November 17, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

SUBJECT: Operations Policy for Christmas and New Year's Holidays

This memorandum provides operating policy guidelines for holiday planning for the 1999 Christmas Holiday season.

Friday, December 24, 1999, and Friday, December 31, 1999:

Normal processing, delivery, collection, and retail services (see note) will be provided. All delivery units should take the necessary actions prior to these dates to ensure that units are in a current status. For information pertaining to our delivery policy for perishable packages, please refer to the attachment dated November 12, 1999.

Note: On Christmas and New Year's Eve, customer traffic at post office windows decreases significantly after 12:00 Noon. Because of our Express Mail promotion that we deliver on Christmas and New Year's day, retail services must maintain normal business hours. However, local managers may reduce window staffing, allowing employees to use annual leave, as long as sufficient staffing is on hand to meet the needs of our customers.

**Christmas Day and New Year's Day "Widely Observed," Saturday,
December 25, 1999 and Saturday, January 1, 2000:**

There will be no delivery (Express Mail excepted), no retail activities, and no outgoing processing. There will be no scheduled collections other than those necessary to prevent boxes from overflowing; this includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must evaluate the service needs of their communities and determine what level of service is warranted.

Sunday, December 26, 1999, and Sunday, January 2, 2000:


There will be delivery of Express Mail only. There will be no outgoing processing and no scheduled collections other than those necessary to prevent boxes from overflowing; this includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must evaluate the service needs of their communities and determine what level of service is warranted.

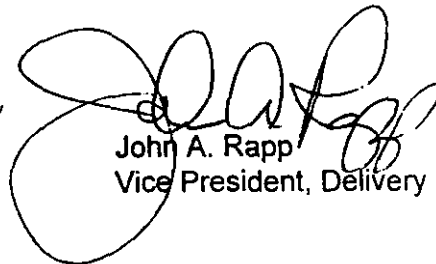
Drop ship mailers will require appointments on New Year's Day, January 1, 2000. Staffing should be scheduled accordingly in order to honor our commitments to the mailing industry during this holiday period.

The requirement displayed in POM 125.22 indicating "consecutive days without collections should be avoided" is waived for this holiday period only. Additionally, offices determining no need for late evening mail collections on December 24 and December 31, 1999, may curtail these collections with district manager approval. For information pertaining to the requirements for a planned suspension of operations, please refer to the attachment dated November 16, 1999, "EXFC and Holiday Operations."

All offices should carefully review staffing plans for these holidays, and make adjustments as necessary, to ensure that the service needs of their communities are attained with no service disruptions.

Please disseminate this information to the appropriate personnel in your area.


Patricia M. Gibert
Vice President, Retail


John A. Rapp
Vice President, Delivery

Attachments

cc: Mr. Lewis
Mr. Kane
Mr. Potter



November 18, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

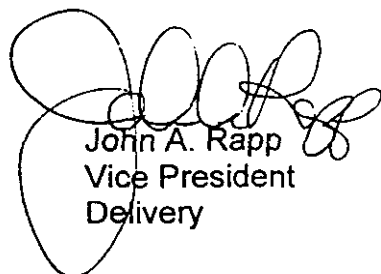
SUBJECT: Addendum to Operations Policy for Christmas and New Year's Holidays

Based on discussions at the recent meeting with the Area Vice Presidents, it has been decided to revise one element contained in the policy letter of November 17, 1999, signed by Pam Gibert and me.

The letter originally stated late evening collections on December 24 and December 31 may be curtailed on an office by office basis with district manager approval. The revised policy is:

Late evening mail collections on Friday, December 31 are not to be curtailed.

Please disseminate this information to the appropriate personnel in your area.



John A. Rapp
Vice President
Delivery

cc: Mr. Lewis
Mr. Kane
Mr. Potter
Ms. Gibert
Managers, Delivery Programs Support (Area)

December 27, 1999

MANAGERS, OPERATIONS SUPPORT (AREA)

SUBJECT: Operations Policy for the Martin Luther King Birthday Holiday

This memorandum provides operating policy guidelines for holiday planning for the 2000 Martin Luther King Birthday holiday weekend.

Saturday, January 15, 2000:

Normal Saturday service levels in processing, delivery, collection, and retail services will be provided. All delivery units should take necessary actions prior to this date to ensure that units are in a current status.

Sunday, January 16, 2000:

Normal Sunday service levels as displayed in Exhibit 125.22 of the Postal Operations Manual.

Martin Luther King's Birthday "Not widely Observed," Monday, January 17, 2000:


There will be no delivery (Express Mail excepted), and no retail activities. At a minimum, collections are to be scheduled from all Time Decal boxes and other collection boxes as necessary to prevent them from overflowing. This includes boxes located on major roadways, other known heavily used boxes (business and residential), those located in front of main post offices, stations and branches, and major postal facilities. Each office must carefully evaluate the service needs of their communities and determine what level of service is warranted.

The extent of outgoing processing necessary must be determined at the local level based on their mail volume for the same period last year. Drop shipment appointments should be made available to major mailers, and both Bulk Mail Centers and Processing and Distribution Centers must be able to accommodate mailers that have made drop ship appointments.

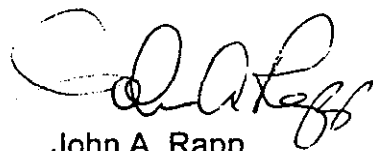
Tuesday, January 18, 2000:
Return to normal service levels.

All offices should carefully review their staffing plans for this holiday, and make adjustments as necessary, to ensure that the service needs of their communities are attained with no service disruptions. Actions should be taken to manage the potential for a spike in delayed packages on Tuesday.

Please disseminate this information to the appropriate personnel in your area.



Nicholas F. Barranca
Vice President, Operations Planning



John A. Rapp
Vice President, Delivery


cc: Mr. Lewis
Mr. Kane
Mr. Potter
Mr. Black

CERTIFICATE OF SERVICE

I hereby certify that, in accordance with section 12 of the Rules of Practice, I have this day served the foregoing document upon:

Douglas F. Carlson
P.O. Box 7868
Santa Cruz CA 95061-7868

David B. Popkin
P.O. Box 528
Englewood NJ 07631-0528


Eric P. Koetting

475 L'Enfant Plaza West, S.W.
Washington, D.C. 20260-1137
(202) 268-2992/ FAX: -5402
November 27, 2000